

Message Text

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ORIGIN SS-25

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DRAFTED BY AF/EPS:RBDUNCAN:SFB

APPROVED BY AF:WESCHAUFLE

AID/AFR:DBROWN (DRAFT)

PM:TSTERN (DRAFT)

EB:JWINDER (SUBS)

M:LEAGLEBURGER (DRAFT)

H:SGOLDBERG(DRAFT)

S/S:O A. OTTO

S:PBARBIAN

----- 117765

P 170208Z APR 76 ZFF4

FM SECSTATE WASHDC

TO USDEL SECRETARY PRIORITY

C O N F I D E N T I A L STATE 093541 TOSEC 100022

EXDIS- TO THE SECRETARY FROM AF: SCHAUFLE THROUGH T: MAW

E.O. 11652: GDS

TAGS: EAID, CG, ZA

SUBJECT: ACTION MEMORANDUM: LETTER TO OMB ON ASSISTANCE
TO ZAIRE AND ZAMBIA (S/S 7608036)

1. ON APRIL 10, YOU AUTHORIZED OUR BEGINNING PROCESS
OF ADMINISTRATION APPROVAL FOR PROVIDING SECURITY
SUPPORTING ASSISTANCE TO ZAIRE AND ZAMBIA AT LEVELS OF
DOLS. 44 MILLION AND DOLS. 30 MILLION RESPECTIVELY PLUS
RELATED OPERATING EXPENSES.
2. IN ACCORDANCE WITH YOUR DECISION, I HAVE ATTACHED
LETTER TO OMB DIRECTOR LYNN REQUESTING HIS APPROVAL
OF A FY 1977 BUDGET AMENDMENT INVOLVING A NET INCREASE
OF DOLS. 77.5 MILLION FOR FOREIGN ASSISTANCE UNDER FUNDS
APPROPRIATED TO THE PRESIDENT.
3. RECOMMENDATION:
THAT YOU APPROVE TRANSMISSION TO OMB OF THE TEXT OF THE
LETTER ON ZAIRE AND ZAMBIA AND AUTHORIZE US TO INFORM
OMB THAT THE SIGNED ORIGINAL WILL FOLLOW.
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APPROVE:

DISAPPROVE:

APPROVE AS AMENDED:

4. CLEARED BY AID/AFR-MR. BROWN; PM-MR. STERN, EB-

MR. WINDER; M-MR. EAGLEBURGER; H-MR. GOLDBERG.

5. BEGIN TEXT:

DEAR JIM:

6. I AM WRITING TO REQUEST YOUR APPROVAL OF AN AMENDMENT TO THE PRESIDENT'S BUDGET FOR FISCAL YEAR 1977. THIS AMENDMENT SEEKS TO PROVIDE APPROPRIATE AND FEASIBLE INDICATIONS OF OUR CONTINUED CONCERN FOR THE ECONOMIC STABILITY AND STRENGTH OF ZAIRE AND ZAMBIA FOLLOWING DEVELOPMENTS IN SOUTHERN AFRICA AND THE SLOW RECOVERY OF WORLD MARKET PRICES FOR THEIR COPPER EXPORTS. THE AMENDMENT INVOLVES A NET INCREASE OF DOLS. 77.5 MILLION FOR FOREIGN ASSISTANCE UNDER FUNDS APPROPRIATED TO THE PRESIDENT.

7. BOTH ZAIRE AND ZAMBIA ARE NOW THREATENED BY SEVERE BALANCE OF PAYMENTS CRISES. THESE CRISES RESULT LARGELY FROM THE SHARP AND PERSISTENT DECLINE IN WORLD DEMAND FOR COPPER COUPLED WITH THE EFFECTS OF WORLD-WIDE INFLATION. THEY HAVE ALSO BEEN SEVERELY AGGRAVATED BY THE CLOSURE OF THE BENGUELA RAILROAD ACROSS ANGOLA -- A MAJOR TRANSPORTATION ROUTE FOR BOTH ZAIRIAN AND ZAMBIAN COPPER EXPORTS AND IMPORTS. ALTERNATE TRANSPORTATION ROUTES ACROSS ZAIRE AND TANZANIA ARE MUCH MORE COSTLY AND NOW CLOGGED WITH MERCHANDISE AWAITING TRANSHIPMENT.

8. FINALLY, REFUGEES FROM THE WAR IN ANGOLA HAVE NOW BEGUN TO FLOOD INTO BOTH ZAIRE AND ZAMBIA FURTHER AGGRAVATING UNEMPLOYMENT AND ADDING ADDITIONAL PRESSURE TO DEPLETED STOCKS OF CONSUMER GOODS. IN ZAIRE THESE REFUGEES NUMBER IN THE HUNDREDS OF THOUSANDS.

9. THESE CIRCUMSTANCES -- BEYOND THE CONTROL OF ZAIRE AND ZAMBIA -- COMPOUND THE ADVERSE IMPACT OF GOVERNMENT DECISIONS IN BOTH COUNTRIES, PARTICULARLY IN ZAIRE, WHEN COPPER PRICES WERE HIGH. ZAIRE THEN ACCUMULATED A LEVEL OF DEBT IT CAN NO LONGER SERVICE. ZAMBIA ESTABLISHED A SYSTEM OF SUBSIDIES FOR DOMESTIC NECESSITIES IT CAN NO LONGER AFFORD.

10. AS A CONSEQUENCE, BOTH COUNTRIES SUFFERED SUBSTANTIAL BALANCE OF PAYMENTS DEFICITS IN 1975 (ZAIRE DOLS. 400 CONFIDENTIAL

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MILLION; ZAMBIA DOLS. 280 MILLION). THEIR FOREIGN RESERVES ARE VIRTUALLY EXHAUSTED. DEPENDENT ON COPPER EARNINGS FOR A SUBSTANTIAL PROPORTION OF THEIR BUDGETARY REVENUE (ZAMBIA 50 PERCENT; ZAIRE 33 PERCENT), THE BALANCE OF PAYMENTS CRISES OF BOTH COUNTRIES HAVE BEEN REFLECTED IN STAGGERING BUDGET DEFICITS. ZAMBIA EXPECTS NO BUDGET REVENUE FROM COPPER IN 1976 BECAUSE THE DELIVERED COST OF ZAMBIAN COPPER IN DAR-ES-SALAAM IS NOW ABOVE THE WORLD MARKET PRICE.

11. BOTH ZAIRE AND ZAMBIA HAVE SOUGHT AND ACCEPTED IMF STABILIZATION PROGRAMS SEEKING TO RESTABILIZE THEIR ECONOMIES. RECENT CABINET CHANGES IN ZAIRE ARE FURTHER INDICATIONS OF PRESIDENT MOBUTU'S DETERMINATION TO GET

HIS ECONOMIC HOUSE IN ORDER. THESE STABILIZATION PROGRAMS INVOLVE HARSH ECONOMIC MEASURES. IN ZAIRE, APPROVED MEASURES INCLUDE A 42 PERCENT DEVALUATION OF THE ZAIRE WHICH WILL SUBSTANTIALLY INCREASE THE ALREADY HIGH COST OF LIVING AND THE CUTBACK, WHEREVER POSSIBLE, OF DEVELOPMENT PROJECTS WHICH WILL AGGRAVATE UNEMPLOYMENT. IN ZAMBIA, CURRENT EXPENDITURES, INCLUDING FOOD SUBSIDY PROGRAMS, ARE PLANNED TO BE REDUCED BY 11 PERCENT AND CAPITAL EXPENDITURES BY 31 PERCENT FROM 1975 LEVELS.

12. HOWEVER, THESE MEASURES AND THE RELATED IMF ASSISTANCE (ZAIRE DOLS. 152 MILLION; ZAMBIA DOLS. 100 MILLION) WILL NOT BE SUFFICIENT TO STABILIZE THE ECONOMIES AT A POLITICALLY ACCEPTABLE LEVEL OF AUSTERITY. THE IMF BELIEVES THAT A MULTINATIONAL RESCHEDULING OF ABOUT DOLS. 200 MILLION OF ZAIRE'S DEBT PAYMENTS WILL BE REQUIRED AND THAT BOTH COUNTRIES WILL ALSO REQUIRE ADDITIONAL IMPORT FINANCING ON CONCESSIONAL TERMS.

13. BOTH ZAIRE AND ZAMBIA MERIT USG PARTICIPATION IN AN INTERNATIONAL ASSISTANCE EFFORT. ZAIRE IS ONE OF THE LARGEST AND MOST IMPORTANT NATIONS IN AFRICA IN WHICH WE HAVE VERY IMPORTANT ECONOMIC INTERESTS AND INVESTMENTS. IT IS ALSO ONE OF OUR STAUNCHEST FRIENDS. ZAMBIA HAS BEEN A POLITICALLY STABLE COUNTRY SINCE INDEPENDENCE, ONE THAT HAS PLAYED A CONSTRUCTIVE AND MODERATING ROLE ON THE CONTINENT. PRESIDENT KAUNDA IS WIDELY CONSIDERED ONE OF THE MOST EFFECTIVE STATESMEN IN AFRICA.

14. ZAIRE AND ZAMBIA HAVE PLAYED EXTREMELY IMPORTANT ROLES IN SOUTHERN AFRICAN POLITICS. CALLS BY PRESIDENTS
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MOBUTU AND KAUNDA FOR A GOVERNMENT OF NATIONAL UNITY AND FOR AN END TO ALL FOREIGN INTERVENTION IN ANGOLA CLOSELY PARALLEL OUR OWN VIEWS. PRESIDENT KAUNDA HAS WORKED DILIGENTLY FOR A PEACEFUL TRANSITION TO MAJORITY RULE IN RHODESIA RATHER THAN A RESORT TO ARMED STRUGGLE.

15. WE BELIEVE IT IS IN THE INTEREST OF THE UNITED STATES THAT ZAIRE AND ZAMBIA REMAIN STRONG ECONOMICALLY AND POLITICALLY TO PROMOTE PEACE AND STABILITY IN CENTRAL AND SOUTHERN AFRICA. TO REFUSE TO PROVIDE ESSENTIAL ASSISTANCE TO ZAIRE AND ZAMBIA, WHEN DEVELOPMENTS IN ANGOLA HAVE COMPOUNDED THE STRAIN ON THEIR ECONOMIES AND PRODUCED AN ATMOSPHERE OF MALAISE IN BOTH COUNTRIES, WOULD BE SHORT-SIGHTED. IMF STABILIZATION MEASURES OF AUSTERITY, WHILE WELCOME, CAN ONLY EXACERBATE EXISTING ANXIETY AND DISCONTENT, FURTHER THREATENING THE STABILITY OF BOTH REGIMES. NOTWITHSTANDING THEIR FISCAL AND OTHER PROBLEMS, THE GOVERNMENTS OF PRESIDENTS MOBUTU AND KAUNDA HAVE BROUGHT RELATIVE STABILITY TO ZAIRE AND ZAMBIA. TO ALLOW THESE REGIMES NOW TO FOUNDER COULD ONLY SET BACK SHARPLY PRESENT HOPES FOR ECONOMIC RECOVERY IN CENTRAL AFRICA. THE ENSUING ECONOMIC STAGNATION AND DOMESTIC BITTERNESS WOULD NECESSITATE ECONOMIC ASSISTANCE ON A

FAR GREATER SCALE THAN IS CURRENTLY PROPOSED, AND WOULD PROVIDE A TEMPTING TARGET FOR MEDDLING BY RADICAL FORCES LONG HOSTILE TO BOTH REGIMES.

16. FINALLY, A PUBLIC OFFER OF US ASSISTANCE TO ZAIRE AND ZAMBIA WOULD ALSO INDICATE BY EXAMPLE THAT OTHER GOVERNMENTS SHOULD RESPOND TO THEIR PRESSING NEEDS. THE EUROPEAN COMMUNITY HAS ALREADY INDICATED ITS INTENTION TO DO SO.

17. I BELIEVE THAT THE "CORE" OF OUR EFFORTS FOR ZAMBIA AND ZAIRE MUST BE SECURITY SUPPORTING ASSISTANCE. THE BUDGETARY IMPACT OF THE PROPOSED AMENDMENT TO THIS EFFECT IS AS FOLLOWS:

BUDGET AUTHORITY
FUNCTIONAL DEVELOPMENT ASSISTANCE PROGRAMS
ORIGINAL BUDGET (1,094.2)
CURRENT PROPOSAL (-6.4)
REVISED TOTAL (1,087.8)
OUTLAY IMPACT OF CURRENT PROPOSAL (-3.2)
SECURITY SUPPORTING ASSISTANCE
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ORIGINAL BUDGET (1,801.5)
CURRENT PROPOSAL (83.9)
REVISED TOTAL (1,885.4)
OUTLAY IMPACT OF CURRENT PROPOSAL (28.2)

THE PROPOSED BUDGET AMENDMENT WILL PROVIDE FOR THE FOLLOWING CHANGES IN AID'S FY 1977 ASSISTANCE PROGRAM FOR ZAIRE AND ZAMBIA:

ZAIRE: - AN INCREASE OF DOLS. 44.0 MILLION IN SECURITY SUPPORTING ASSISTANCE FUNDS IN THE FORM OF A PROGRAM LOAN TO PROVIDE BALANCE OF PAYMENTS ASSISTANCE (DOLS. 40.0 MILLION) AND A TECHNICAL ASSISTANCE GRANT PROGRAM (DOLS. 4.0 MILLION).

-- A CONVERSION OF DOLS. 3.5 MILLION OF DEVELOPMENT FUNDS (UNDER SECTION 103, 104, AND 105 OF THE FOREIGN ASSISTANCE ACT) TO SECURITY SUPPORTING ASSISTANCE TO PROVIDE FOR GRANT FUNDED PROJECT ASSISTANCE ALREADY INCLUDED IN THE FY 1977 BUDGET REQUEST UNDER FUNCTIONAL DEVELOPMENT PROGRAMS. THIS CONVERSION IS NECESSARY SINCE SECTION 115 OF THE FOREIGN ASSISTANCE ACT PROHIBITS USE OF FUNDS FROM THE DEVELOPMENT ASSISTANCE ACCOUNTS FOR ANY COUNTRY TO WHICH ASSISTANCE IS FURNISHED FROM CHAPTER 4, SECURITY ASSISTANCE. THIS PROHIBITION MAY NOT BE WAIVED, ALTHOUGH IT DOES NOT APPLY TO POPULATION PLANNING PROGRAMS THAT COME UNDER THE AUTHORITY OF TITLE X OF THE FOREIGN ASSISTANCE ACT OR TO REGIONAL PROGRAMS. IN FY 1977 WE WILL CONTINUE A MODEST FAMILY PLANNING PROGRAM FUNDED FROM THE POPULATION HEALTH ACCOUNT.

ZAMBIA: - AN INCREASE OF DOLS. 30.0 MILLION IN SECURITY SUPPORTING ASSISTANCE FUNDS IN THE FORM OF A PROGRAM LOAN TO PROVIDE BALANCE OF PAYMENTS ASSISTANCE.

19. IN LINE WITH OUR CURRENT PROCEDURES FOR HANDLING OPERATING EXPENSES, WE PROPOSE TO INCREASE THE CHARGE UNDER SECURITY SUPPORTING ASSISTANCE TO ACCOMMODATE ADDITIONAL COSTS THAT SHOULD APPROPRIATELY BE CHARGED TO THIS ACCOUNT. THIS INCREASE WILL BE PARTLY OFFSET BY A CORRESPONDING REDUCTION FOR OPERATING EXPENSES CHARGED TO THE FUNCTIONAL ACCOUNTS.

20. IN ADDITION TO THIS NEW SECURITY SUPPORTING ASSISTANCE, WE ALSO PLAN NEW PL-480 AND EXIMBANK ELEMENTS FOR OUR ASSISTANCE PACKAGES:
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21. IN THE CASE OF ZAIRE, WE ENVISAGE A FY 1977 PL-480 PACKAGE FOR ZAIRE OF DOLS. 8 TO DOLS. 15 MILLION DEPENDING ON ZAIRE'S NEEDS AND COMMODITY AVAILABILITIES. THE UNITED STATES HAS ALREADY AGREED TO PARTICIPATE IN THE MULTILATERAL DEBT RESCHEDULING EFFORT NOW UNDERWAY.

22. IN THE CASE OF ZAMBIA, WE WILL ALSO SEEK EXIMBANK FINANCING FOR APPROPRIATE EQUIPMENT IMPORTS, PARTICULARLY IN THE MINING SECTOR AND WILL TRY TO DEVELOP A PL-480 PROGRAM AND A HOUSING INVESTMENT GUARANTEE.

23. WE WILL CONTINUE TO PURSUE POSSIBILITIES FOR OTHER DONOR ASSISTANCE FOR BOTH COUNTRIES.

24. I URGE YOUR EARLY FAVORABLE CONSIDERATION OF THIS IMPORTANT ISSUE.

25. IN VIEW OF THE IMPLICATIONS OF THIS AMENDMENT REQUEST FOR THE ADMINISTRATION'S BUDGET POLICY, I PLAN TO INFORM THE PRESIDENT OF THIS COMMUNICATION TO YOU. WE DO NOT FORESEE ANY ADDITIONAL REQUIREMENTS IN FY 1977 FOR ZAIRE AND ZAMBIA WHICH WOULD REQUIRE FURTHER BUDGET AMENDMENTS. END TEXT.

CLEARANCES: AID/AFR:DBROWN (DRAFT), PM:TSTERN (DRAFT),
EB:JWINDER (SUBS), M:LEAGLEBURGER (DRAFT),
H:SGOLDBERG (DRAFT), S: PBARBIAN
ROBINSON

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